

**USAID/Mozambique**

**Annual Report**

**FY 2004**

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## **Mozambique**

### **Performance:**

Background: Since the end of 17 years of civil war in 1992, there has been steady and consistent growth in the economy, with some down turn because of the floods in 2000 and 2001. The country's success is reflected in its ability to sustain strong economic growth - including GDP growth of 10% in 2002 and projected seven percent GDP growth for 2003. Behind solid and increasingly progressive leadership, the country continues make progress on economic and political reforms in the face of substantial development challenges. The improved policies and reforms are helping to ensure that Mozambique maintains high economic growth rates (average of eight percent over the last five years), reduces widespread poverty, strengthens democracy and political stability, and reduces the high incidence of HIV/AIDS.

Annual per capita income is roughly \$226 (IMF 2003 projection), with the mean household income in the poorest areas of the center and north reaching only \$80. Seventy percent of the population lives at or below the absolute poverty level. Sixty percent of adults are illiterate. Approximately 13.6% of Mozambican adults are HIV positive. Despite increased vaccination rates and improving access to basic health services, over 60% of the population remain without access to health care. Life expectancy remains low at 40.2 years for women and 38.4 for men and is expected to decrease due to HIV/AIDS. Mozambique's mortality rate for children under the age of five ranks among the worst in Africa.

In 2003, the economy maintained its single digit inflation and revived the high growth that had been interrupted by the floods and the banking crisis in 2000/2001. The Mozal II aluminum smeltering plant came on line and the Sasol gas pipeline from northern Inhambane province to central South Africa was completed. Good rains in the north of the country produced a bumper crop of maize. Export growth in 2003 was slight but is anticipated to increase significantly in 2004 when Mozambique will begin to see the impact of aluminum smelter and gas exports.

Democratic development and political reconciliation, a priority during the 1990s, remains high on the Mozambican agenda. Progress has been remarkable in some areas with emergence of functioning national institutions, three peaceful elections, and the emergence of new political voices. Significant barriers to good governance remain. Opposition parties lack the requisite skills and resources to compete effectively or serve the public's interest; citizen participation in government decision-making outside of electoral periods is extremely limited; and corruption and poor service delivery erode public confidence in government.

With increasing pressure to carry out elections that meet to international standards of freedom and fairness, calendar year 2003 saw the successful completion of the second municipal elections and gearing up for the slated 2004 national elections. The elections process was generally peaceful and smooth, but some irregularities were documented in Mozambique's second largest city. These irregularities were discovered and prompt action was taken by local elections administration officials to disclose the events and apprehend individuals involved in the attempted fraud.

U.S. Interests and Goals: Because Mozambique provides access to global markets for several landlocked countries and due to its proximity to the industrial heartland of South Africa, U.S. interests are firmly rooted in maintaining political stability and economic growth in Mozambique to ensure peace, stability, and economic growth throughout Southern Africa.

The USAID program promotes U.S. interests in Mozambique by addressing regional stability, democracy and human rights, economic prosperity and security, social and environmental issues, and humanitarian

needs - all of which track closely with the poverty reduction and economic growth strategy of the Government of Mozambique (GRM). USAID assistance to Mozambique is instrumental in: (i) increasing rural household incomes; (ii) strengthening the effectiveness of the governance partnership between government and civil society, including anti-corruption efforts; (iii) increasing the use of basic health services; (iv) preventing the spread of HIV and mitigating the impact of AIDS; and (v) improving the enabling environment for private sector led growth. USAID's program is tied closely to Mozambique's efforts to adhere to Millennium Challenge Account (MCA) standards of just governance, investments in people, and economic development.

The Department of Justice, State Department, and the Federal Bureau of Investigations are all working together with USAID to deliver important anti-corruption assistance.

Challenges: Mozambique has made great gains in recent years but still faces formidable challenges such as: high poverty levels (70%); illiteracy rates of 60%; over 13% HIV prevalence rate, and some of the worst social and health indicators in the world. There also exists a geographic challenge of reaching the over 17.6 million citizens that are spread across a territory twice the size of California with poor infrastructure.

Donor Coordination: Donor coordination is excellent. Donor coordination working groups are active in all of USAID's strategic areas and are a direct result of the formation of the Development Partners Group in 1994. A common and important aspect is Government of Mozambique leadership of each working group. USAID is partnered with the World Bank, the European Union, and other bilateral European donors in close cooperation with the Ministry of Agriculture, to improve agricultural policy and restructure the agricultural public sector. USAID remains a leading member of the Ministry of Health-chaired donor working group that includes Canada, the Netherlands, the EU, Japan, the World Bank and several other European Governments. USAID and the World Bank continue to implement complementary efforts to improve the environment for private sector growth, with USAID serving as the lead agency for the Integrated Framework (IF) that will build trade capacity and mainstream trade policy into Mozambique's poverty reduction strategy.

An increasing number of donors are directly participating in the informal HIV/AIDS donor working group including the U.K. (DfID), Ireland Aid, the Netherlands, France, Canada, Norway and the E.U. The group facilitates the programming and coordination of the donors to ensure nationwide, cross-sectoral activities in the fight against HIV/AIDS. The working group has instilled a meaningful degree of responsiveness and flexibility in donor programming so that funding contributes to the national HIV/AIDS response. For example, Denmark, a key donor in the education sector in Mozambique, has provided technical and policy leadership as well as funding to ensure that the impact of HIV/AIDS on the sector is understood and addressed. In FY 2004 the informal donor group will propose to Mozambique's National Aids Council that the group be formalized and include bilateral donors, multilateral donors, and representatives from an established network of NGOs working on HIV/AIDS.

Key Achievements: FY 2003 was a year of solid progress with all of the four strategic objectives (SOs) performing at or above expectations. Significant gains were made in maternal and child health, policy reforms in trade, local capacity to tackle corruption, HIV/AIDS prevention, and sustainable agricultural production. The challenge in the coming years will be to overcome Mozambique's financial and human resource constraints and implement new policies and programs that build on past achievements and link USAID's program even more closely to Mozambican priorities and leadership.

1. Increased rural household income in focus areas: Under this SO, USAID supports the promotion of basic economic development, increased incomes, and food security. The objective of increased income is being achieved in focus areas by opening access to domestic, regional and global markets, expanding the number and reach of rural enterprises, and increasing and diversifying sustainable agricultural output. The primary beneficiaries are over 9 million smallholder families. In 2003, USAID-targeted smallholder fields in Zambézia province, the largest and highest density province in the USAID focus area, demonstrated an increase in maize yields from 2.02 to 2.29 tons per hectare while rice yields escalated from 1.9 to more than 3 tons per hectare. Marketing association commodity sales increased

from an average of \$1,237 in 2001 to \$1,871 per association in 2003. Promotion of crop diversification has tripled the production of “other” crops in one of the target provinces from 285 to 787 tons and increased sales from non-maize crops from 30% in 2002 to 47% in 2003. As a result of increased crop diversification and group marketing activities, one private voluntary organization (PVO) reported a 24% increase in association membership bringing the total to 26,360 members, 35% of which are women. This demonstrates the growing effectiveness of these associations.

To date, as a result of USAID programs, progress has been made in the growth, membership and sales of rural enterprises. The approval in 2003 of a Global Development Alliance (GDA) for the establishment of a producer owned trading company operating in northern Mozambique with links to counterpart producers in neighboring Zambia is further evidence of the advances made by rural enterprises. Anticipated results of the alliance include increases in incomes for members and increased integration into regional markets.

Key to the sustainability of achievements in rural income growth is the success of the GRM’s agricultural sector investment program, ProAgri. ProAgri continues to make progress in policy analysis and reform with more robust analysis in the areas of rice, the minimum wage, and cotton addressed in 2003. Despite advances in ProAgri, the Ministry of Agriculture and Rural Development’s (MADER) overall execution of its core functions is below target. The lack of progress is attributed primarily to delays in the timely transfer of financial resources from the GRM Treasury to MADER.

2. Effective government-civil society partnerships: This SO supports the consolidation of democracy through more effective participation by civil society, and through more capable and accountable government institutions. The Anti-Corruption Unit of the Attorney Generals’ Office, established with assistance from USAID, received 116 corruption crime reports in its first year of operation, 11 led to indictment and three went to trial. The number of crimes reported dispels any concern about citizen confidence in the unit and their willingness to report corruption crimes. USAID’s partnership and grant with Etica Mozambique, the only Mozambican anti-corruption non-governmental organization (NGO), resulted in the drafting and defense of anti-corruption legislation that the Parliament subsequently approved. Etica Mozambique also conducted massive country wide research on effective anti-corruption campaigning, and eventually launched a national awareness and education campaign against corruption.

3. Maternal and child health: This SO seeks to increase the use of improved, basic maternal and child health services, including those related to reproductive health and HIV/AIDs by improving access to and demand for services and by strengthening the management and delivery of decentralized services. With USAID assistance, maternal and child health services continue to improve in both quantity and quality. Integrated management of childhood illness activities across USAID’s six province focus area increased to 80% of all districts, from coverage of 29 to 88 districts in FY 2003. Over 3,200 community leaders who serve as liaisons between the community and formal health system were trained in Integrated Management of Childhood Illnesses (IMCI) and referred over 6,500 children under five to the formal health facilities for treatment. According to initial data from the Demographic and Health Survey (DHS), the 2003 contraceptive prevalence rate reached 17.5%, an impressive increase over the 1.3% recorded in 1997 and far surpassing USAID’s target of 8%. Immunization rates among children 12-23 months old also increased from 45% in 1997 to 61.5% in 2003. The DHS shows declines in infant mortality rates from 135 to 102 in 2003 and an increase in Vitamin A supplements from a baseline of essentially 0% to 45.6% among children under the age of five in the targeted areas.

HIV/AIDS: The number of clients visiting voluntary counseling and testing (VCT) centers supported with USAID funding in 2003 represented over 33% of the nationwide total of 77,800 clients. USAID will provide assistance to more VCT sites in the coming year in addition to opening 14 prevention of mother-to-child transmission (PMTCT) sites, doubling the number of existing PMTCT sites and contributing to 25% of the government goal through the end of calendar year 2004.

USAID funded behavior change and prevention activities delivered through mass media and interpersonal channels reached over 250,000 youth through 12,000 guided peer debates nationwide and recorded over 2,000 theater performances reaching approximately 175,000 Mozambicans of all ages. In FY 2003 the

total number of condoms sold rose to 15.6 million, far surpassing the 12 million target.

USAID continues to provide funds to a Mozambican foundation to implement the Maputo Corridor AIDS Project (MCAP). Through subgrants to twelve NGOs (both international and national) and community-based organizations to carry out intensive community-based prevention and care activities, over 248,000 individuals were reached (118% of the target) through home visits, partner education sessions, round table discussions, and theater performances at schools, churches, community events, and the workplace. Other activities included: (1) 9,652 home care visits conducted (114% of target); (2) 930 orphans received services (72% of target); and (3) a telephone hotline for HIV/AIDS/STI counseling launched; 39,000 clients served in 2003.

4. Enabling environment for investment and trade: Under this SO, USAID aims to: strengthen the GRM's capacity to formulate, negotiate, and implement trade policy; build private sector capacity to engage in policy dialogues; and assist both the private and public sector to advance specific reforms in tax administration, alternative dispute resolution, telecommunication deregulation, labor legislation, and other priority areas. USAID's main non-governmental partner for improving the business environment is the Confederation of Mozambique Business Associations (CTA). After completing an overall staff restructuring, CTA improved communication with its members, made greater and more effective use of the media, and showed significantly more willingness to directly challenge government on sensitive policy areas. Specific policy issues broached by CTA in 2003 included: the rules governing the hiring of expatriates; reform of the labor law; the impact of the new tax system; delays in value added tax (VAT) reimbursements; land titling and transferability; and telecommunications laws and regulations.

Particularly notable in 2003 was progress toward greater trade liberalization. At the policy level, the Economic Council of Ministers approved the USAID-funded Trade Mainstreaming Study, making trade a major element in the government's overall economic growth and poverty reduction strategy. In January 2003, the government reduced the high tariff band from 30% to 25%, thereby reducing trade taxes to 14% of total revenue (not including development assistance). The GRM fulfilled its tariff reduction commitments under the Southern African Development Community (SADC) Free Trade Area (FTA), but also began to look for alternatives as SADC has so far failed to fulfill expectations. With USAID bilateral and regional support, Mozambique has undertaken an in-depth review of the pros and cons of Southern African Commercial Union (SACU) membership, and may follow with a review of Common Market for Eastern and Southern Africa (COMESA), which it formally left in 2000.

Looking Ahead: FY 2004 marks the first year of a new country strategy, USAID will begin to pursue five new strategic objectives that foster sustained, broad-based, poverty-reducing economic growth through: agricultural-led growth and increased international trade; a reduction in the transmission of HIV/AIDS; improved maternal and child health; and more democratic municipal governance. The new strategy will contribute significantly to overall peace and security in sub-Saharan Africa. U.S. assistance must continue to play an increasingly critical role in the country's future if the poor are to share in the benefits of growth and reform, and if Mozambique is to become fully integrated into the global economy.

**Country Close and Graduation:**

Not applicable.

## **Results Framework**

### **656-001 Increased rural household income in focus area**

#### **SO Level Indicator(s):**

Net per capita average real income per year

- 1.1 Increased access to markets
- 1.2 Rural enterprises expanded

### **656-002 Government and civil society are effective partners in democratic governance at the national and local levels**

#### **SO Level Indicator(s):**

Perceptions of influence by citizens - public surveyed who agree that citizens influence public decisions

Perceptions that local questions of interest are better resolved through collaboration between local government, citizens, and private sector

- 2.1 Increased citizen participation in governance at the national and local levels
- 2.2 Key democratic institutions are more effective and accountable

### **656-003 Increased use of essential maternal and child health and family planning services in focus areas**

#### **SO Level Indicator(s):**

Assisted delivery - mother with children < 24 months who were attended at birth of last child by a health workers (includes TBAs)

Contraceptive prevalence rate - women 15-49 using modern method

DPT3 coverage

- 3.1 Increased access to community-based services
- 3.2 Increased demand for community-based services
- 3.3 Strengthened management of decentralized services

### **656-004 Improved enabling environment for private sector-led growth and development**

#### **SO Level Indicator(s):**

Economic Freedom - Worldwide Heritage Foundation Index

- 4.1 Increased private sector role in development of economic policy, legislation and regulations
- 4.2 Improved policies and facilities encourage trade and investment

### **656-005 XXXXXXXXXXXXXXXX**

### **656-006 Rapid rural income growth sustained in target areas**

#### **SO Level Indicator(s):**

Increased productivity

Increased rural household income

- 6.1 Increased smallholder sales of agricultural production
- 6.2 Rural enterprises expanded
- 6.3 Transport infrastructure improved

### **656-007 Labor intensive exports increased**

#### **SO Level Indicator(s):**

Increase in exports (targeted and non-targeted sectors)

Jobs created (direct and indirect)

- 7.1 Markets for exports expanded
- 7.2 Enabling environment for exports improved
- 7.3 Capacity of labor-intensive industries strengthened

### **656-008 Increased use of child survival and reproductive health services in target areas**

#### **SO Level Indicator(s):**



Children 12-23 months fully vaccinated prior to first birthday

Deliveries assisted by a trained health worker

**8.1** Increased access to quality child survival and reproductive health services in target areas

**8.2** Increased demand at community level for child survival and reproductive health services

**8.3** More accountable policy and management

**656-009 HIV transmission reduced and impact of the AIDS epidemic mitigated**

**SO Level Indicator(s):**

HIV infected women who receive ARV intervention to prevent MTCT

HIV Prevalence in 15-24 year olds

Sexually active adults and youth reporting at least one non-regular partner in last 12 months

**9.1** Civil society linked effectively to national HIV/AIDS response

**9.2** Behavior change enhances HIV/AIDS prevention and care

**9.3** Essential services utilized

**656-010 Municipal governance increasingly democratic**

**SO Level Indicator(s):**

Issues-oriented civic initiatives in target municipalities

Municipal governments who openly share budget and operational plans with citizens

Municipalities that have developed plans through participatory processes

**10.1** Increased participation by citizens and civil society in target areas

**10.2** Targeted municipal governments demonstrate more democratic decision making